

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

CAPITAL BUDGET PROGRAMS STATUS REPORT

At mid-year, the City Manager's Budget Office conducts a comprehensive review of each capital budget program. This section of the report summarizes the financial status of each program, including a discussion of the major revenue sources and any major expenditure variances.

The 2006-2007 Adopted Capital Budget totaled \$1.38 billion. Through the first six months of the year, the City Council approved budget adjustments that increased the capital budget by \$225.4 million to a total of \$1.61 billion. The majority of this change (\$217.1 million) reflects technical adjustments that were processed as part of the 2005-2006 Annual Report, the majority of which included \$140.0 million to account for changes to fund balance as a result of higher revenue collections or expenditure savings and \$33.7 million to account for rebudgets to 2006-2007 to complete projects. The remainder of approved adjustments to the budget through the first six months of the fiscal year included a small number of new projects or projects with changes in cost and/or scope, as well as technical adjustments to funding sources.

During the first half of the year, project expenditures were generally tracking within budget. The continued rise in construction costs continues to be a concern for projects scheduled to be awarded through the remainder of the year. As a result, projects may begin to experience shortfalls that could require budget adjustments or changes in scope. A report of these impacts on the City's bond programs is being presented to the City Council separately from this document in January 2007.

AIRPORT

Financial Status

The Airport Capital Program is composed of four funds: The Airport Capital Improvement Fund, the Airport Revenue Bond Improvement Fund, the Airport Renewal and Replacement Fund, and the Airport Passenger Facility Charge (PFC) Fund.

Revenues recorded into Airport capital funds include grant income, commercial paper proceeds, PFC's, bond proceeds, and interest income, along with reimbursements to review and inspect tenant improvements. In addition, Airport operating revenues support the funding of the Airport Renewal and Replacement Fund capital projects.

The Airport Capital Improvement Fund is funded by grant revenue. Principally, these are federal grants administered by the Federal Aviation Administration (FAA) under its Airport Improvement Program (AIP). Most grants provide an 80% reimbursement of project costs. The Airport's 20% local share is primarily funded by the Airport PFC Fund or the Airport Renewal and Replacement Fund. Overall, grant income in the Airport Capital Improvement Fund is tracking below budgeted levels since grant revenues are typically received on a reimbursement basis, however, a significant portion of budgeted revenue is still expected to be received by year-end. Commitments through December in the Airport Capital Improvement Fund totaled \$28.2 million, or approximately 75.9% of the modified

2006-2007
MID-YEAR BUDGET REVIEW
Section II

CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)

AIRPORT (CONT'D.)

Financial Status (Cont'd.)

budget for capital projects. No mid-year adjustments are included in this fund.

The Airport Revenue Bond Improvement Fund provides funding for major capital projects financed by bond issuances and other debt instruments. Revenues and expenditures are tracking within anticipated levels through December. The Airport is currently using commercial paper to provide funding for projects in this fund and the issuance of long-term bonds is anticipated in June 2007.

Commitments through December in the Airport Revenue Bond Improvement Fund totaled \$208 million, or approximately 52.1% of the modified budget for capital projects. Mid-year adjustments recommended in this report for this fund will advance funding and projects from the out years to the current fiscal year and include the following projects: Terminal Area Improvement, Phase I, Public Parking, and Consolidated Rental Car Facility. The acceleration of funding is necessary to continue project design efforts. Also recommended in this fund is an increase to the budget for principal and interest due to the expansion of the commercial paper program approved by City Council in January 2007.

The Airport Renewal and Replacement Fund's revenue source primarily comes from operating revenues included in the calculation of the annual rates and charges and funneled to this fund via the Airport Surplus Revenue Fund.

Although no transfers were made through December, the full transfer from the Airport Surplus Revenue Fund is expected to be made prior to the end of the fiscal year. Projects in this fund support capital projects that are not approved for grant, PFC, or bond funding.

Commitments through December in the Airport Renewal and Replacement Fund totaled \$6.7 million, or 28.7% of the modified budget for capital projects, and are tracking at estimated budget levels. There are several mid-year appropriation adjustments recommended in this report, including: the establishment of three new projects, Airport Rescue and Fire Fighting Facility Feasibility (\$30,000), FIS 3rd Floor Lounge Build-Out (\$540,000) and Airport Parkway Trail Undercrossing (\$229,000); the augmentation of the Part 139 Compliance Projects (\$350,000), Land Improvements (\$39,000), and Advanced Planning (\$200,000) projects; and the reduction in funding of the Relocate Construction Facility Trailers (\$80,000), Runway 11/29 REIL (\$330,000), Upgrade Passenger Boarding Bridges (\$300,000) and the Terminal A Jet Bridge Wall Panel (\$190,000) projects. The net impact of these actions is a decrease to Ending Fund Balance in the amount of \$488,000.

The Airport PFC Fund includes projects that have been approved by the FAA for funding from PFC's, which is a \$4.50 fee charged to departing passengers. Projects within this Fund are determined in consultation with the airlines that utilize the Airport facilities. PFC revenue collections were budgeted with a 2% growth in activity for 2006-2007 and have been tracking just under estimated levels. Commitments

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

AIRPORT (CONT'D.)

Financial Status (Cont'd.)

through December in the Airport PFC Fund totaled approximately \$23 million or 33.8% of the modified budget for capital projects. No mid-year adjustments are included in this fund.

COMMUNICATIONS

Financial Status

The Communications Program was established to replace and upgrade the public safety and non-public safety radio equipment and is funded from Construction and Conveyance (C&C) Taxes.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts through December have declined now for the eighth consecutive month compared to the prior year, however, is projected to meet or exceed the budgeted estimate. The 2006-2007 Adopted Capital Budget estimate for C&C taxes is \$27 million, of which 3.4% is allocated to the Communications Capital Program.

A recommendation to establish an appropriation for the Fire Radio Infrastructure System project is included in this document. This project would be funded by the Communications Capital Program (\$460,000), with the remaining (\$100,000) funded in the Public Safety Capital Program. This funding will be used to address

deficiencies within the Fire Department's communication system through the purchase of additional receivers to be installed at existing sites, the installation of mobile repeaters, and the addition of a third transmitter at the West Yard. The addition of this project, which was not programmed in the 2006-2007 Adopted Budget, will not cause any projects to be eliminated, however, some lower priority projects may need to be deferred.

Expenditures are tracking below budgeted levels through December.

DEVELOPER ASSISTED PROJECTS

Financial Status

The Developer Assisted Projects Capital program includes the Underground Utility Fund and the Residential Construction Tax Contribution Fund, which are used primarily to receive money from and/or provide payments to developers and utility companies for the construction of street improvements throughout the City and to encourage the undergrounding of existing overhead utilities. The Underground Utility Fund is supported by In-Lieu fees paid by developers. Revenue collections through December of \$482,000 are behind pace for achieving the adopted estimate of \$1.4 million and may finish the year below the budgeted level. Any shortage in current year revenue will be mitigated by expenditure savings in future years. Expenditures are tracking below budgeted levels through December.

The Residential Construction Tax Contribution

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

**DEVELOPER ASSISTED PROJECTS
(CONT'D.)**

Financial Status (Cont'd.)

Fund generates its revenue from the Residential Construction Tax. Revenue collections in this category (\$171,000) are well above anticipated levels and on pace to exceed the adopted estimate (\$250,000). Expenditures in nearly all categories are tracking below expected levels with the exception of the Residential Program Administration appropriation. Staff will closely monitor this appropriation and bring forward recommended budget adjustments later in the year, if appropriate and necessary.

LIBRARY

Financial Status

The Library Capital Program provides funding to construct new library facilities, renovate existing facilities, acquire materials, install automation equipment to provide information access and electronic processing, and support other miscellaneous facility improvements. The Library Capital Program is funded primarily from Construction and Conveyance (C&C) Taxes, proceeds from the Library Bond Measure, and proceeds from the Library Benefit Assessment.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts through December have declined now

for the eighth consecutive month compared to the prior year, however, is projected to meet or exceed the budgeted estimate. The 2006-2007 Adopted Capital Budget estimate for C&C taxes is \$27 million, of which 14.22% is allocated to the Library Capital Program. In the C&C Tax Fund, an augmentation in the amount of \$151,000 is recommended to ensure adequate funding to purchase materials for all bond-funded libraries coming on-line this fiscal year.

On November 7, 2000, City voters approved Measure O, a \$212 million general obligation bond for library improvements. In June 2006, a total of \$58.9 million in bond proceeds were issued to provide sufficient funding for 2005-2006 and 2006-2007 expenditures. It is anticipated that the bond proceeds will be issued at the end of the fiscal year to ensure sufficient funding for projects scheduled for 2007-2008. The continued rise in construction costs continues to be a concern for projects. Several adjustments were made to projects in the first half of the year in order to ensure sufficient funding for the project award. For the remainder of the year, projects may continue to experience shortfalls that could require budget adjustments or changes in scope. A report of these impacts on the City's bond programs is being presented separately to the City Council. In this document, an augmentation of \$1.0 million is recommended in the Branch Libraries Projects Bond Fund for land acquisition costs at the new Bascom Branch Library and Community Center. Sufficient ending fund balance developed through project savings from completed projects and interest earnings generated from prior bond sales exists to offset this action.

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

LIBRARY (CONT'D.)

Financial Status (Cont'd.)

The Library Parcel Tax Fund revenues and expenditures are tracking within estimated levels through December.

NEW CITY HALL

Financial Status

The 2006-2007 budget for this capital program primarily reflects project closeout costs and remaining funding to complete the off-site employee garage. In addition, as approved by the City Council in May 2006, funding in this program includes neighborhood improvement projects and other city-wide infrastructure improvements that were funded from interest earnings in the construction bonds. The 2006-2007 sources of funding for this program include existing fund balances and commercial paper proceeds. Commercial paper provided interim financing to complete construction of City Hall and the off-site garage. Bonds will be issued to provide permanent funding after full completion of the garage later this fiscal year.

On the revenue side, commercial paper issuance in the Civic Center Improvement Fund totaled \$557,000 through December compared to a budget of \$9.2 million. The remaining commercial paper issuance scheduled in this fund, allocated for technology, fixtures, and equipment, will be made as actual expenditures occur later in this fiscal year. In the Civic

Center Parking Fund, existing bond proceeds are available to reimburse the costs of the New Civic Center Off-Site Parking Garage. Commercial paper, however, was also issued this year to cover parking garage expenses. It has been determined that these commercial paper proceeds are not needed for this project and can be transferred to the Central Service Yard Phase II project. As a result, a technical adjustment is recommended as part of this document to transfer \$1.25 million of commercial paper issuance from this fund to the Construction and Conveyance Tax Fund: Service Yards Purpose.

On the expenditure side, appropriations are tracking within expected levels. The projects funded in the remaining allocations include cable/fiber connections to public safety facilities and additional improvements at City Hall, planned for implementation later this fiscal year. Included in these improvements will be the installation of automatic opening doors, child-safe railings, and audio-visual improvements.

Construction of the New Civic Center Off-Site Parking Garage is nearing completion. On November 2nd, the garage was opened as a parking option to those parking in the Market Street Garage. Currently, all employees are now able to park in the garage with minor items still to be completed.

PARKING

Financial Status

The Parking Capital Program provides funding

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

PARKING (CONT'D.)

Financial Status (Cont'd.)

to maintain and improve existing parking facilities, upgrade and replace both on-street and off-street parking equipment, and develop new parking facilities. The Parking Capital Program is funded from the General Purpose Parking Fund.

Revenues in the General Purpose Parking Fund are primarily generated from fees charged at downtown garages, lots, and parking meters. A portion of those revenues is transferred to the Parking Capital Program to fund capital improvements. Revenues are currently tracking slightly higher than projected estimates, and it is anticipated that all of the funding approved for capital projects in the General Purpose Parking Fund in the 2006-2007 Adopted Budget will be available for budgeted purposes.

Through December, capital project expenditures in the General Purpose Parking Fund are tracking within generally expected ranges. The Parking Guidance System – Phase II project is scheduled to be awarded in the second half of 2006-2007 and is scheduled for completion next fiscal year. The Revenue Control Equipment Replacement and Integration project at the Convention Center parking facilities is scheduled for completion in fall 2007. The Facility Improvements project completes various improvement and maintenance projects throughout the City such as adding new signs, striping, power washing, concrete repairs, stairwell repairs, etc. One large project currently being worked on is the stairwell

replacement at the Third Street Garage which is scheduled to be completed in fall 2007. The 2nd and San Carlos Street Garage Seismic Upgrade project is scheduled to be completed by the end of 2006-2007.

**PARKS AND COMMUNITY
FACILITIES DEVELOPMENT**

Financial Status

The Parks and Community Facilities Development Capital Program is a long-term capital investment plan for the acquisition, development, and maintenance of parks, recreational facilities, trails and open space.

The Parks Capital Program is funded primarily through Construction and Conveyance (C&C) Tax revenue and proceeds from the Parks Bond Measure. In addition to these revenues, the Parks Capital program is also supported by grants from the federal and State governments, developer's contributions and fees.

As previously reported in Monthly Financial Reports, Construction and Conveyance collections through December have declined now for the eighth consecutive month compared to the prior year, due to the slowdown in the local real estate market. Nearly 98% of the total C&C taxes are comprised of conveyance receipts, or property transfers, which are the main driver in this revenue category. The number of property transfers for all types of residences in the first half of 2006-2007 has decreased by 26% compared to the first six months of 2005-2006. The median home price

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

**PARKS AND COMMUNITY
FACILITIES DEVELOPMENT
(CONT'D.)**

Financial Status (Cont'd.)

of \$695,000 is at its lowest point since January 2006. This figure represents less than a 1% growth since the December 2005 price of \$690,000. The average days on market has steadily grown from a low of 34 days in June 2006 to 55 days in December. The December figure represents a 49% increase from the 37 days houses remained on the market in December 2005.

The 2006-2007 Adopted Capital Budget estimate for C&C taxes is \$27 million, of which 64% is allocated to the Parks Capital Program. The adopted estimate allows for a 45% drop from the historically high 2005-2006 collection level. Through December, Construction and Conveyance Tax receipts totaled \$17.6 million or 65% of the adopted estimate. Therefore, although collections have dropped considerably (-24% compared to December 2005) since the beginning of the year, it is still anticipated that the budget estimate of \$27 million will be reached or exceeded by year-end. Due to the volatile nature of this tax, staff will continue to closely monitor activity and collection levels. Adjustments to the revenue estimate will be brought forward after the end of the fiscal year based on actual collections. For purposes of developing the 2007-2008 Proposed Capital Budget, it is assumed that C&C Tax collections will reach \$34 million in 2006-2007.

On November 7, 2000, City voters approved Measure P, a \$228 million general obligation bond for park and recreational improvements. In June 2006, a total of \$45.4 million in bond proceeds were issued to provide sufficient funding for 2005-2006 and 2006-2007 expenditures. It is anticipated that the bond proceeds will be issued at the end of the fiscal year to ensure sufficient funding for projects scheduled for 2007-2008. The continued rise in construction costs continues to be a concern for projects. As a result, in the first half of the year, several projects were rescope or rebid in order to ensure funding for project award. For the remainder of the year, projects may continue to experience shortfalls that could require budget adjustments or changes in scope. A report of these impacts on the City's bond programs is being presented to the City Council separately from this document.

In the other funds that support the Parks and Community Facilities Development Capital Program, revenues and expenditures are generally tracking within estimated levels through December.

There are, however, several adjustments recommended in this document to reflect anticipated expenditure changes including: Alum Rock Park Waterline Relocation (\$200,000); Bascom Community Center (\$974,450); Selma Olinder Dog Park (\$250,000); TRAIL: Los Gatos Creek Reach IV (\$280,000); and TRAIL: Los Gatos Creek Reach V (\$137,000). In addition, technical adjustments totaling \$214,000 are recommended to address higher than anticipated city-wide

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

**PARKS AND COMMUNITY
FACILITIES DEVELOPMENT
(CONT'D.)**

Financial Status (Cont'd.)

overhead charges and account for a Public Works administrative rate adjustment to prevent negative appropriations by year-end.

In addition, several actions are recommended in this document to appropriate new funds or to activate existing reserves for new Capital projects. These projects include: Alum Rock Park Entrance Restroom (\$150,000); Alviso Park Master Plan (\$250,000); Chelmers Park Development (\$433,000); LoBue Park Development (\$228,000); Newhall Neighborhood Park (\$200,000); Plaza de Cesar Chavez Water Fountain Renovation (\$650,000); Reserve: Newhall Neighborhood Park (\$1,001,000); TRAIL: Coyote Creek (Phelan Avenue to Los Lagos Golf Course) (\$200,000); and West San José Community Center Landscaping and Monument Sign (\$150,000).

For more detailed information on all the adjustments made to the Parks Capital Program, please refer to Section III of this document.

PUBLIC SAFETY

Financial Status

The Adopted 2006-2007 Public Safety Capital Program is funded from three sources: proceeds from the Neighborhood Security Act Bond

Measure (\$128.6 million); Fire Construction and Conveyance (C & C) Tax Fund (\$10.0 million) and the General Fund (\$9.0 million).

On March 5, 2002, the voters in San José approved Measure O, the “9-1-1, Fire, Police, Paramedic and Neighborhood Security Act”, a \$159 million general obligation bond for Police and Fire capital improvements. Approximately \$78.8 million of bonds have been issued in prior fiscal years, and the 2006-2007 Adopted Capital Budget includes an additional bond issuance of \$72.4 million. Through December, revenues and expenditures in this program are tracking within estimated levels. The continued rise in construction costs continues to be a concern for projects. As a result, in the first half of the year, several projects were rescope or rebid in order to increase the likelihood of receiving favorable bids. For the remainder of the year, projects may continue to experience shortfalls that could require budget adjustments or changes in scope. A report of these impacts on the City’s bond programs is being presented to the City Council separately from this document.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts through December have declined now for the eighth consecutive month compared to the prior year, however, is projected to meet or exceed the budgeted estimate. The 2006-2007 Adopted Capital Budget estimate for C&C taxes is \$27 million, of which 8.4% is allocated to the Fire Department as part of the Public Safety Capital Program.

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

PUBLIC SAFETY (CONT'D.)

Financial Status (Cont'd.)

As part of the Fire Department Cost/Position Management Plan actions recommended in this document, funding of \$52,000 in costs for the replacement of turnout pants and boots is recommended to be shifted from the General Fund to the Fire Construction and Conveyance Tax Fund.

Also included in this document are recommendations to appropriate additional funding from the C&C Tax Fund to upgrade the Fire Department's Radio Infrastructure System (\$100,000) through the purchase of additional receivers to be installed at existing sites, installation of mobile repeaters, and the addition of a third transmitter site at the West Yard. An additional \$460,000 for this project is recommended in the Communications Capital Program. In addition, an increase to the Tools and Equipment appropriation (\$50,000) is recommended to replace aged and worn equipment used by trainees at Firefighter Recruit Academies. The use of Ending Fund Balance from the C&C Fund is recommended to offset these costs, which total \$150,000. Also, additional funding from the Neighborhood Security Act Bond Fund (\$184,000) is recommended for several Fire Station projects to address higher than anticipated city-wide overhead charges, utility costs, and account for a Public Works administrative rate adjustment to prevent negative appropriations by year-end. The use of Ending Fund Balance is recommended to offset these costs.

The Public Safety Capital Program also receives funds from the General Fund. Activity in this portion of the Public Safety Program is tracking within expected ranges.

SANITARY SEWER

Financial Status

The Sanitary Sewer System of the City of San José consists of approximately 2,000 miles of sewer mains ranging in diameter from six to 90 inches. The system serves the City as well as three other jurisdictions, and conveys sewage to the San José/Santa Clara Water Pollution Control Plant. The Sanitary Sewer Capital Program has two major funding sources: the Sewer Service and Use Charge Capital Improvement Fund and the Sanitary Sewer Connection Fee Fund. These funds are supported through transfers from the Sewer Service and Use Charge Fund, joint participation revenues, loan repayments, connection fee revenues, interest, and other miscellaneous revenue.

The Sewer Service and Use Charge Capital Improvement Fund is funded through transfers from the Sewer Service and Use Charge Fund and interest earnings. Transfers through December have totaled \$5.13 million, or 33.3% of the budgeted amount (\$15.38 million), and subsequent transfers are expected to occur as planned. Through the first six months, interest earnings and miscellaneous revenue are tracking above anticipated levels at \$652,000 or 75.7% of the budgeted amount. On the expenditure

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

SANITARY SEWER (CONT'D.)

Financial Status (Cont'd.)

side, projects are occurring as anticipated and any remaining savings at year-end is expected to be rebudgeted to complete ongoing projects. In addition, a technical adjustment of \$57,000 is recommended to address higher than anticipated city-wide overhead charges and account for a Public Works administrative rate adjustment to prevent negative appropriations by year-end.

Joint participation revenues, connection fees, and interest earnings support the Sanitary Sewer Connection Fee Fund. Joint participation revenues, usually invoiced and accrued at the end of the fiscal year, reflect cost sharing of actual expenditures incurred during the fiscal year. Corresponding project expenditure savings will offset any potential shortfall in this category. Through December, collections of Sanitary Sewer Connection Fees totaled \$911,000 or 85% of the budgeted amount (\$1,073,000) due to higher level of activities.

Interest income and miscellaneous revenue totaled \$180,000 through December, or 374% of the budget amount (\$38,000) due to a higher than estimated fund balance last year. On the expenditure side, projects are occurring as anticipated and any remaining savings at year-end is expected to be rebudgeted to complete ongoing projects.

SERVICE YARDS

Financial Status

The Service Yards Capital Program funds the construction and capital improvements for City Service Yards, which house all the support shops that maintain City vehicles, buildings, sanitary sewers, storm drains, streets, and related facilities. The Service Yards Capital Program is supported by the Construction and Conveyance (C&C) Tax Fund.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts through December have declined now for the eighth consecutive month compared to the prior year, however, is projected to meet or exceed the budgeted estimate. The 2006-2007 Adopted Capital Budget estimate for C&C taxes is \$27 million, of which 8.78% is allocated to the Service Yards Capital Program.

Included in this document is a recommendation to decrease the estimate for earned revenue from commercial paper proceeds (\$1.25 million), while increasing the estimate for transfers (\$1.25 million) in the Service Yards C&C Fund. The City has issued commercial paper for the New Civic Center Parking Garage project in the Civic Center Parking Fund, however, bond proceeds are available in that fund which can be used to reimburse those costs. The commercial paper issued for that project can be more efficiently used to reimburse the costs of the Central Service Yard Phase II project. Generally, expenditures in this program are tracking within estimated levels through

2006-2007
MID-YEAR BUDGET REVIEW
Section II

CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)

SERVICE YARDS (CONT'D.)

Financial Status (Cont'd.)

December and are expected to be within budgeted levels at the end of the year. The Central Service Yard, Phase II project is currently under construction with completion scheduled to occur this summer.

STORM SEWER

Financial Status

The purpose of the Storm Sewer System is to collect storm water separate from the Sanitary Sewer System, assure through best practices the quality of the runoff, and convey it to nearby creeks and rivers. The Storm Sewer Capital Program is primarily funded by the Storm Sewer Capital Fund, and the Storm Drainage Fee Fund.

In the Storm Sewer Capital Fund, transfers from the Storm Sewer Operating Fund have totaled \$642,000 or 33.4% of the budgeted amount of \$1,925,000. The full amount is expected to be transferred by year-end. Through December, interest earnings are tracking slightly above projected levels at \$44,500, which represents 61.8% of the budgeted amount (\$72,000).

Expenditures in this fund are tracking as expected and should end the year within the budgeted allocation.

In the Storm Drainage Fee Fund, Storm Drainage Fees generate the majority of revenues for this fund. Through December, these collections totaled \$112,000, which is 22% of the estimated revenues (\$498,000). The lower than expected revenue is due to the fact that most of the current activities for this fund are in developed areas. Typically, developed areas have existing storm infrastructure and require less storm drainage work, thus generating less revenue. Overall, revenues in this fund are tracking to end the year below the budgeted level, and there should be sufficient ending fund balance in this fund to cover the current shortfall. It is expected that revenue will continue to decline and as a result, revised revenue projections, and the impact in program expenditures for these fees, will be included as part of the 2008-2012 Proposed Capital Improvement Program.

Expenditures in this fund are tracking as expected and should end the year within the budgeted allocation.

TRAFFIC

Financial Status

The Traffic Capital Program's mission is to implement a safe, efficient, and environmentally sensitive surface transportation system. The Traffic Capital Program is funded in large part by Building and Structure Construction Taxes and Construction Excise Taxes. With the revenues in both categories tracking above estimated levels, they are expected to meet or

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

TRAFFIC (CONT'D.)

Financial Status (Cont'd.)

exceed their respective budgeted estimates by year-end.

Building and Structure Construction Tax Fund

Building and Structure Construction Tax receipts through December totaled \$5.68 million (58.6% of the current 2006-2007 estimate of \$9.69 million). This represents an increase of 20.7% from last year's year-to-date receipts of \$4.71 million. The current adopted estimate assumes flat growth compared to actual 2005-2006 performance. Current projections indicate that revenues will meet or exceed the adopted estimate by year-end. Staff will continue to monitor these revenues closely and report current status in future Monthly Financial Reports.

Revenue from grants and reimbursements are generally tracking within estimated levels. However, there are a number of adjustments recommended in this report. A revenue estimate increase of \$435,000 and a corresponding increase to the Bailey/Route 101 Improvements project is recommended in this document to recognize funding received from the Santa Clara Valley Transportation Authority for the construction of the Route 101 and Bailey Avenue Interchange. Also, an increase of \$44,000 in revenues with a corresponding increase to the Seismic Bridge Retrofit: William Street project is recommended in this document to recognize funding received from the Highway Bridge Replacement and

Rehabilitation grant for consultant and City staff charges for the preliminary engineering work for this project.

On the expenditure side, there are also a number of adjustments recommended in this report. An increase of \$1 million to the Senter Road: Tully to Singleton project is recommended due to an increase in land costs associated with a property acquisition settlement, and also for the escalation and inflation costs of construction materials. Also, an increase of \$200,000 to the Branham Lane Improvements project is recommended in order to accelerate the completion of the final design for this project. An increase of \$158,000 to the Oakland Road: Route 101 to Montague project is also recommended to complete asphalt paving at the railroad crossing at Wayne Avenue and Oakland Road. In addition, an increase of \$124,000 to the Story Road: Senter to McLaughlin project is recommended to reflect a repayment for a settlement between the City and a private property owner for the property that was needed in order to construct this project. Lastly, a total increase of \$180,000 to various projects (an increase of \$55,000 to Branham Lane Improvements; an increase of \$40,000 to Lucretia Avenue: Story to Phelan; an increase of \$20,000 each to Downtown/East Valley Transit, Miscellaneous Regional Highway Projects, and North San José Traffic Mitigation; an increase of \$15,000 to Taylor Street: First to Coleman; and an increase of \$10,000 to Route 880: Coleman Project Management) is recommended to address higher than anticipated city-wide overhead charges and account for a Public Works administrative rate adjustment to prevent negative appropriations by year-end. A

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

TRAFFIC (CONT'D.)

Building and Structure Construction Tax Fund
(Cont'd.)

decrease of Ending Fund Balance is recommended in the amount of \$1.7 million to fund these recommended actions. Though sufficient Ending Fund Balance is available, this action may impact projects in the out years of the current CIP. Any adjustments to projects programmed in the future years of the CIP, if necessary, will be brought forward for Council consideration as part of the budget process.

Construction Excise Tax Fund

Tax receipts through December for the Construction Excise Tax Fund totaled \$7.84 million, which represents a 17.4% increase over last year's \$6.67 million received over the same period. Collections for the first six months of the year totaled 57.2% of the 2006-2007 estimate of \$13.70 million. The budgeted estimate for this category allowed for a 2.7% drop in 2006-2007 compared to actual 2005-2006 performance. Construction Excise Tax receipts are expected to meet or exceed budgeted estimates by year-end. Staff will continue to monitor these revenues closely, and report current status in future Monthly Financial Reports. Other revenues from grants and reimbursements are generally tracking within estimated levels.

There are a number of actions recommended in this report to adjust revenues and expenditures based on current activity and project needs. An increase of \$70,000 in revenues is

recommended to establish the Saratoga/Graves Street Improvements project. This project will install approximately 22 Americans with Disabilities Act (ADA) curb ramps along Saratoga Avenue and Graves Avenue. An increase of \$13,000 to the Hellyer Piercy Improvement District and Great Oaks project is recommended to provide funding for a final punch list of items such as final financial reports and inspection reports. Finally, a total increase of \$195,000 for various projects (an increase of \$60,000 to Miscellaneous Regional Highway Projects; an increase of \$35,000 to Miscellaneous Rail Transit Projects; an increase of \$30,000 to ITS: Operations and Management; an increase of \$25,000 each to Project Development Engineering and Traffic Forecasting and Analysis; and an increase of \$20,000 to Congestion Management Policy Conformance) is recommended to address higher than anticipated city-wide overhead charges and account for a Public Works administrative rate adjustment to prevent negative appropriations by year-end. A decrease of \$208,000 to Ending Fund Balance is necessary to offset all the actions recommended in this document.

Other Funds

The Traffic Capital Program is also supported in small part by the Major Collectors and Arterials Fund. This fund allocates developer contributions for specific purposes related to major collectors and arterials, including signal retiming necessitated by increased congestion caused by development. Revenues received through December totaled \$46,000 or 18.4% of the 2006-2007 budgeted estimate of \$250,000.

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

TRAFFIC (CONT'D.)

Other Funds (Cont'd.)

Since these revenues are based on development activity, this revenue have been historically unpredictable.

The Traffic Capital Program also receives significant funding from the General Fund. Activity in this portion of the Traffic Program is tracking within expected ranges.

In overall terms, expenditures in all four funds included in the Traffic Capital Program are tracking within generally expected levels. Although a small number of projects have schedule extensions, most construction projects that are programmed to award contracts in the current year are anticipated to do so before the end of 2006-2007.

WATER POLLUTION CONTROL

Financial Status

The San José/Santa Clara Water Pollution Control Plant is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. The Water Pollution Control Capital Program is funded primarily through contributions from Tributary Agencies, interest, transfers from Sewer Service & Use Charge Fund and Sewage Treatment Connection Fee Fund, Silver Creek pipeline contributions from the Santa Clara Valley Water District, grant

revenues from the United States Bureau of Reclamation (USBR), and Proposition 13 funding from the State Water Resources Control Board.

In the San José-Santa Clara Treatment Plant Capital Fund, revenues from Tributary Agencies are tracking close to year-to-date estimates. Through the first six months of the year, these revenues totaled \$4.2 million or 40% of the budgeted amount (\$10.5 million). It is expected that the budgeted amount will be received by year-end. A total of \$243,000 or 63% of the Calpine Metcalf Repayment has also been received. Through December, interest revenues totaled \$1.1 million or 56.7% of the budgeted amount (\$1.9 million) and are expected to meet or exceed the adopted estimate by year-end. Transfers from the Sewer Service & Use Charge Fund and the Sanitary Sewer Connection Fee Fund are occurring as scheduled and are expected to reach the budgeted amount for 2006-2007 (\$13.2 million). Overall, revenues are expected to meet or exceed the budgeted estimate by year-end.

Expenditures in this program are tracking as estimated and are expected to end the year within the budgeted allocations.

WATER UTILITY SYSTEM

Financial Status

The San José Municipal Water System provides water utility service, in accordance with State of California Department of Health Services

**2006-2007
MID-YEAR BUDGET REVIEW
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT
(CONT'D.)**

**WATER UTILITY SYSTEM
(CONT'D.)**

Financial Status (Cont'd.)

requirements, to areas approved for development by the City Council and within the City's water service area. The Water Utility System Capital Program is funded primarily through fees paid by developers for direct services, interest, and transfers from the Water Utility Fund to the Water Utility Capital Fund.

Through December, fee collections in the Water Utility Capital Fund totaled \$59,000, or 7.2% of the budgeted amount for 2006-2007 (\$820,000). This fee revenue is tracking below expected levels and is due to lower than anticipated activity, thus less revenue is received from Service Connection and Advanced System Design fees which are reimbursements for actual expenditures. Expenditure savings in these categories will offset the overall fee revenue shortfall. Additionally, interest earnings totaled \$89,000 through December, or 80% of the annual budget estimate of \$112,000. Interest earnings are expected to exceed the budgeted amount due to higher than anticipated cash levels and slightly higher interest rates. Overall, higher than expected interest collections and expenditure savings mentioned above should offset the shortfall in fee revenues. Transfers from the Water Utility Fund are occurring as scheduled.

The Major Facilities Fee Fund receives revenue from a connection fee charged to developers and according to State law, may be used only for the construction of new facilities to service future

developments as well as interest income. Due to the slow development in the first half of the year in areas covered by the Evergreen East Hills Vision Strategy, Coyote Valley Specific Plan, and Vision North San José, fee collections totaled only \$1,500, or 1.0% of the budgeted amount for 2006-2007 (\$150,000). The revenue collected is set aside in a reserve for projects necessitated by system growth. Interest earnings totaled \$54,000 or 51% of the budgeted amount (\$105,000). If the overall revenue collected does fall below the budgeted estimate by year-end, there is sufficient Ending Fund Balance to cover any shortfall in this fund.

Expenditures in this program are tracking as estimated and are expected to end the year within the budgeted allocations.